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C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 000611

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TAGS: [ECON](#) [EFIN](#) [ENRG](#) [EPET](#) [MOPS](#) [MARR](#) [PGOV](#) [PREL](#) [TU](#) [IZ](#)
SUBJECT: IRAQ ENERGY UPDATE -- THE INADEQUACY OF MUDDLING
THROUGH

REF: A. (A) ANKARA 0775
[1](#)B. (B) KIMMEL-YOUNG-GOLDBERGER-REID EMAILS 2/06
[1](#)C. (C) YOUNG-DELARE E-MAIL 2/21/06
[1](#)D. (D) BAGHDAD 495

Classified By: Economic Minister Counselor Tom Delare for reasons 1.4 (b) and (d).

[1](#)1. (C) SUMMARY: Fuel supplies are very low across the country and are critically so in Baghdad. Imports of refined products and domestically produced fuels both dropped during the first two months of 2006. Turkey and Iraq have come to agreement on arrears payments and, in time, the resumption of imports. Some key oil pipelines remain cut and natural gas lines supplying power plants have been interdicted intermittently, reducing electricity production. Oil exports have been varying wildly in recent days, with ship loadings at Umm Qasr reaching 1.8 mbpd during February 12-15, but dropping to zero on other days in February. While the policy by default for the GOI appears to be "muddling through," if the government holds to the budget ceilings it has for fuel purchases, more drastic steps will be necessary, particularly market liberalization and/or rationing to distribute fuel and electricity equitably among consumers. END SUMMARY.

FUEL AVAILABILITY

[1](#)2. (C) Iraq is falling behind "just in time" deliveries for fuels. As of 26 February, Baghdad had only 0.6 days of supply for gasoline and 0.4 days of LPG (gas for cooking). Diesel supply was marginally better at 1.0 days of supply. Only kerosene (used for heating) is at more comfortable level, with 10.9 days of supply. Nine days earlier (February 17), Baghdad fuel stocks in days of supply were: gasoline - 0.9, LPG - 0.7, diesel - 1.3, and kerosene - 13.6. Nationally, the days of supply for gasoline as of 26 February were at 1.4, diesel at 3.1, kerosene at 5.9, and LPG at 14.4. Fuel shortages would be worse were it not for the current curfew and curtailment of inter-provincial travel imposed following sectarian disturbances following the bombing of the Golden Mosque in Samara.

STATUS OF IMPORTS

[1](#)3. (C) Fuel imports have slowed considerably since early January from Turkey as a result of unpaid arrears to Turkish suppliers. Turkey and Iraq agreed February 15 to settle some \$653 million in arrears by monthly installments beginning in March with 3% interest on any unpaid balances (Refs A and B). The monthly payments will be charged against the 2005

budget, in view that the arrears were from purchases made during the 2005 fiscal year. To prevent new arrears from accumulating, the Turks agreed to sell only against Iraqi letters of credit (Ref A). It will likely be several weeks before Iraq sees substantial increases in tanker trucks crossing the border. Only then (Ref C) will the loading and shipping system gear up again.

14. (C) DPM Chalabi informed the Embassy (Ref D) that the GOI intends to shift a considerable portion of its fuel imports to seaborne fuel cargos imported through the South. In fact, imports by ship through Khor al-Zubayr from the UAE have made the key difference in fuel supplies during the past month. The bulk quantities of fuel are fed into the product distribution lines for delivery in southern Iraq and can be pumped north as far as Baghdad.

FUEL PRICES

15. (C) In his first press conference after being nominated by his party for a second term as Prime Minister, Ibrahim al-Ja'fari said the government has no intentions to raise fuel prices further. This announcement was widely reported on radio, TV and newspapers. (NOTE: The next price increase according to Iraq's agreement with the IMF is scheduled for March 31. However, a number of stations -- at least six in Baghdad -- are already selling gasoline for \$.63/gallon at the instigation of the MOO Director General for Distribution. This is \$.25/gallon above the price set in December under Iraq's agreement with the IMF. END NOTE).

16. (C) Black market prices vary widely, with the highest

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prices in the Kurdish north, where there is the greatest shortage of fuel. In Kirkuk, the street price for gasoline is \$1.26-\$1.52 per gallon, while in Tikrit the price is only \$.56 per gallon. Black market prices in Baghdad are reportedly about \$.76 per gallon. LPG has skyrocketed in price on the black market and is reportedly being sold at \$10.00 per 12 kilogram (kg) container in Kirkuk and \$12.00 in Baghdad, where only 32,000 12 kg containers of 120,000 container daily demand can be filled from available supplies due to a series of pipeline interdictions. LPG is reaching Baghdad by truck. Fuel is most readily available in southern Iraq, as the Basrah refinery is still operating, albeit at a reduced level, with supplies supplemented by imports coming in from Kuwait, Iran, and the UAE.

REFINERIES

17. (C) Refining at Bayji restarted on February 13 with the delivery of crude via the repaired 26-inch pipeline from Kirkuk. Bayji is currently processing 142,000 bpd of crude oil per day (49% of capacity). The Daura Refinery is processing 62,000 bpd of crude oil and operating at 57% of capacity. Production at Daura may increase at the end of February with the repair of the Unit #1 reformer, adding another 25,000 bpd of capacity. Basrah Refinery remains at 81,000 bpd, as half of the plant is down for long term maintenance. The refinery will also be at 50% capacity later this year, as remaining processing units are taken down in succession and the entire plant is eventually retrofitted, improving production and output.

PIPELINES AND FUEL DISTRIBUTION

18. (C) The key oil link between Kirkuk and Bayji, the 26-inch pipeline, was reported operational February 16. The 40-inch pipeline in the same corridor is scheduled for repair

completion in early March. The 22-inch product line from Bayji to Baghdad remains interdicted, requiring repairs at multiple sites along the corridor. The 22-inch pipeline will again become critical for providing fuels to Baghdad with the restarting of the Bayji Refinery, particularly with full production expected in late February. The main LPG line to Baghdad was interdicted on February 17, cutting off Baghdad from LPG deliveries by pipeline until repairs completed.

¶9. (C) The interdiction of two gas pipelines, the 16-inch dry gas line to the Taji and Daura power plants and the 30-inch sour gas line from Ageel to the Bayji and Mulla Abdullah power plants, resulted in a reduction of natural gas deliveries to these gas fired power plants and the loss of 280 MW of power on the national electrical grid.

OIL EXPORTS

¶10. (C) Crude oil export volumes remain below forecast. The early-February attack on the new oil stabilization plant at Kirkuk reduced processing capacity there from 1,000,000 bpd to 500,000 bpd -- and that only when the old stabilization plant becomes fully operational in about 30 days. The current limit to production from Kirkuk remains the 26-inch pipeline, which can only carry 270,000 bpd across the Tigris, an amount less than the daily demand of the Bayji refinery (290,000 bpd). Export capacity would increase when the 40-inch pipeline is in service, but still will be limited to exports of roughly 200,000 bpd by the capacity of the old stabilization plant to process only 500,000 bpd. Thus, crude oil exports from the North are not expected to reach substantial levels in the immediate future. In the South, exports have dropped appreciably from the average of 1.1 million bpd in January to 0.69 million bpd during the period 18-25 February. Inclement weather and a lack of tug boat support have caused Iraq to miss multiple days of loading crude oil tankers.

MUDDLING THROUGH AT AN END?

¶11. (C) COMMENT: Despite interdictions and the clearly mounting pressure on the GOI (particularly the acute shortage of LPG and gasoline in Baghdad), the GOI remains indecisive, resulting by default in a "muddle through" policy in hope that the quantities of imports and domestic production will

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increase. Iraqis have long been used to shortages as they wait in lines for LPG and gasoline and temperate springtime weather in February has helped to lower needs for heating. However, the 2006 budget for fuel appears to permit no more than approximately \$213 million per month for fuel imports, considerably below the \$450 million per month the GOI was spending at the end of 2005. Given that fuel imports met approximately 40% of Iraqi domestic needs in 2005 (including power generation), the fall off in import purchases may force the Iraqis to look at radical coping measures quite quickly -- import liberalization, rationing or the breaking of budget targets seem the only likely candidates. END COMMENT.
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